[Estimating the Elasticity of Intertemporal Substitution using Dividend Tax News Shocks]

CFM-DP2024-15

Martin B. Holm[3], Rustam Jamilov[4], Marek Jasinski[2] and Plamen Nenov[1]

[1]Norges Bank, [2]Statistics Norway, [3]University of Oslo, [4]University of Oxford

This paper studies the spending response to news about a dividend tax reform in order to estimate the elasticity of intertemporal substitution (EIS). The Norwegian dividend tax reform was proposed in 2003, announced in 2004, implemented in 2006, and raised the dividend tax rate by 28 percentage points. We compare the spending responses of exposed households with a high share of dividends to income before the reform to a control group. Exposed households responded to the reform by increasing spending after the news and reducing spending after implementation. We interpret our findings using a capitalist-worker framework with dividend tax news shocks. The model can replicate the spending response to the dividend tax news only if the EIS is greater than one, with a baseline estimate of around 2.